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SUBJ: THE GDR AND ECONMIC REALITIES

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TAGS: PINT, EGEN, GE

SUBJECT: THE GDR AND ECONOMIC REALITIES

SUMMARY

A \$64 QUESTION HERE IS HOW LONG WILL THE GDR BE ABLE TO HOLD THE LINE ON CONSUMER PRICES. THE OBJECTIVE OF PRICE STABILITY, ESPOUSED BY BOTH PARTY AND GOVERNMENT, WOULD APPEAR TO BE IRRECONCILABLE WITH NATURAL ECONOMIC LAWS. NEVERTHELESS, AND NOTWITHSTANDING THE SERIOUS WRENCHES SUSTAINED BY THE DOMESTIC ECONOMY THROUGH FOREIGN INFLATION AND THE INCREASED COST OF RAW MATERIALS, PRICES FOR BASIC GOODS AND SERVICES HAVE REMAINED STABLE. THANKS TO MASSIVE SUBSIDIES BP THE GOVERNMENT. ONE REPORT HAS IT THAT SED CHIEF HONECKER OVERRULED A PARTY DECISION TO RAISE PRICES, INSISTING THAT HIGHER COSTS NOT BE PASSED THROUGH TO THE POPULATION. SUCH A POLICY CAN SUCCEED IN THE SHORT RUN, OF COURSE; BUT SOONER OR LATER IT, AND HONECKER, WILL HAVE TO BOW TO THE INEVITABLE. COMMON WISDON HAS IT THAT A GENERAL PRICE INCREASE WILL BE IMPLEMENTED IN 1976. THE IMPACT OF SUCH A PRICE HIKE ON LIVING STANDARDS AND ANY POLITICAL REPERCUSSIONS OUGHT TO BE MANAGEABLE, HOWEVER, SINCE EARNINGS AND SAVINGS ARE AT HIGH LEVELS AND THE POPULATION ENJOYS MEANINGFUL ACCESS TO WESTERN GOODS. END SUMMARY.

1. FOR SOME TIME NOW GDR OBSERVERS HAVE BEEN PERPLEXED AT THIS COUNTRY'S SEEMING ABILITY TO SHRUG-OFF THE ECONOMIC REALITIES OF TODAY'S WORLD. ALMOST TOTALLY DEPENDENT ON IMPORTS OF RAW MATERIALS AND WITH A FOREIGN TRADE SECTOR EQUIVALENT TO THIRTY PER CENT OF NATIONAL INCOME, THE GDR HAS BEEN HARD HIT BY FOREIGN INFLATION, INCREASED RAW MATERIAL PRICES AND CONJUNCTURAL DEVELOPMENTS IN THE INDUSTRIALIZED WEST. DESPITE THE ACKNOWLEDGED IMPLICATIONS OF EXPOSURE TO SUCH EXOGENOUS INFLUENCES FOR THE DOMESTIC ECONOMY, THE SED REGIME HAS PURSUED A "CONSUMPTION AS USUAL" POLICY AND HAS LOST NO OPPORTUNITY TO ASSURE THE POPULATION THAT CONSUMER PRICES WILL REMAIN STABLE.

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2. THE EAST GERMAN GOVERNMENT HAS INSISTED THAT THE DETERIORATION IN THE GDR'S TERMS OF TRADE AND THE COMMITMENT TO AN IMPROVED LIVING STANDARD POSE NO INSUPERABLE CHALLENGE. IT MAINTAINS THAT THE ADDITIONAL GOODS REQUIRED TO ACQUIRE A GIVEN QUANTITY OF IMPORTS AND THOSE NECESSARY TO SUPPLY DOMESTIC REQUIREMENTS ARE TO BE OBTAINED THROUGH INCREASED PRODUCTIVITY AND HEIGHTENED FRUGALITY IN THE UTILIZATION OF RAW MATERIALS AND FUELS. THE EXHORTATIONS TO SUCCEED IN THE PURSUIT OF THESE DUAL OBJECTIVES HAVE BECOME INCREASINGLY STRIDENT, AND THE REGIME EMPLOYS ALL SIGNIFICANT DATES (SILVER ANNIVERSARY OF FOUNDING

OF THE GDR, 30TH ANNIVERSARY OF LOBERATION FROM FACISM, IXTH PARTY CONGRESS) TO URGE THE POPULATION TO ACHIEVE FULFILLMENT AND "PLANNED OVER-FULFILLMENT" OF PLAN GOALS. MOREOVER, INDUSTRIAL PRICES WERE RAISED ONLY A SHORT TIME AGO, RETROACTIVE TO THE BEGINNING OF THE YEAR, TO FORCE ENTERPRISES TO ACHIEVE GREATER ECONOMIES IN THE USE OF MATERIAL INPUTS.

3. WHILE PRODUCTIVITY COULD BE EXPECTED TO SHOW AS GOOD GAINS IN THE FUTURE AS IN THE PAST AND CONSIDERABLE SAVINGS THROUGH THE MORE ECONOMICAL USE OF MATERIALS ARE POSSIBLE, THE CONSENSUS IS THAT THE MAGNITUDE OF THE EXTERNAL INFLUENCES OPERATING ON THE GDR WILL PRECLUDE TO TOAL OFFSETTING OF THESE FACTORS. THERE HAS ALREADY BEEN SOME BELT-TIGHTENING, THROUGH STABLE OR REDUCED LEVELS OF CONSUMPTION AND INVESTMENT. THE CRUNCH HAS BEEN CONSIDERABLY EASED, HOWEVER, THROUGH CONTINUING LARGE FOREIGN TRADE DEFICITS. INDICATIONS ARE THAT THE GDR WILL EMPLOY ITS EXCELLENT CREDIT RATING TO INCUR ADDITIONAL WESTERN CREDITS WITH WHICH TO FINANCE BOTH IMPORTS FROM THE WEST AND DOLLAR-INVOICED PETROLEUM DELIVERIES FROM THE SOVIET UNION. WHILE WESTERN FINANCIAL INSTITUTIONS ARE PROBABLY INCLINED TO GIVE THE GDR PRETTY MUCH WHAT IT WANTS DUE TO ITS RELATIVELY LOW LEVEL OF FOREIGN INDEBTEDNESS, AT LEAST SOME U.S. BANKS ARE BEGINNING TO HAVE DOUBTS ABOUT THE GDR'S ABILITY TO REPAY SUCH DEBTS.

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4. ON THE INVESTMENT SIDE, FIGURES FOR 1974 INDICATE THAT THE GDR ACHIEVED ONLY MARGINAL GROWTH IN EXPENDITURES ON NEW PLANT AND EQUIPMENT. IN VIEW OF HIGHER PRICES, REAL INVESTMENT IN PLANT AND EQUIPMENT MAY HAVE BEEN LOWER IN 1974 THAN IN 1973. SUCH A RESULT IS, OF COURSE, NOT WITHOUT SIGNIFICANCE FOR THE FUTURE GROWTH PROSPECTS OF THE ECONOMY, AND IT APPEARS CERTAIN THAT LOCAL PLANNERS WILL RESIST PERMITTING SUCH AN EXPERIENCE TO CONTINUE FOR ANY SIGNIFICANT LENGTH OF TIME.

5. AS FAR AS CONSUMPTION IS CONCERNED, EAST GERMANS SEEM TO BE DOING RATHER WELL, BOTH ACCORDING TO MOST RECENT OFFICIAL DATA AND RELATIVE TO OTHER EAST EUROPEANS. EMBASSY OFFICERS HAVE BEEN IMPRESSED BY THE APPARENT AVAILABILITY OF CONSUMER GOODS AND THE PRICE STABILITY OF BASIC ITEMS. IT IS DIFFICULT TO GUAGE THE SEVERITY OF SHORTAGES (SHICH HAVE ALWAYS EXISTED); BUT THESE SEEM EVIDENT AT LEAST IN RELATION TO DISPOSABLE INCOME, SINCE DOMESTIC LEVELS OF SAVINGS CONTINUE TO HE HIGH, INDICATING THAT THE ABILITY OF PEOPLE TO

CONSUME IS LIMITED MORE BY THE UNAVAILABILITY OF GOODS THAN IT IS BY THE WHEREWITHAL TO PURCHASE THEM. PERHAPS TO MAKE SUCH SHORTAGES MORE ACCEPTABLE TO ITS CITIZENRY, THE GDR, FOR ALL PRACTICAL PURPOSES, PERMITTED A SECOND CURRENCY, NAMELY THE WEST GERMAN MARK, TO CIRCULATE SIDE-BY-SIDE WITH THE GDR CURRENCY (SEE US MISSION BERLIN AIRGRAM NUMBER 101 OF APRIL 18, 1974 ON "LIBERAL EAST GERMAN INTERPRETATION OF NEW CURRENCY LAW"). THE FRG MARK CAN BE EXPENDED ON A WIDE RANGE OF EDIBLES, BEVERAGES AND NON-DURABLE ITEMS IN THE HARD CURRENCY SHOPS THAT HAVE SPRUNG UP THROUGHOUT THE GDR. THESE FUNDS COME FROM FRIENDS AND RELATIVES IN THE FRG, EITHER DIRECTLY OR THROUGH THE MAILS AND, OF COURSE, CONSISTITUTE A SIGNIFICANT INTERNATIONAL TRANSFER OF PURCHASING POWER TO THE EAST GERMAN CONSUMER. ALTHOUGH SUCH A PRACTICE DOES ENTAIL THEORETICAL AS WELL AS PRACTICAL PROBLEMS FOR THE GDR, THE TANGIBLE BENEFITS HAVE APPARENTLY BEEN CONSIDERED SUFFICIENT TO OUTWEIGHT THE NEGATIVE ASPECTS.

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6. RECENTLY, THE FEASIBILITY OF MAINTAINING CONSUMPTION LEVELS AND PRICE STABILITY PARI PASSU HAS BEEN INCREASINGLY QUESTIONED. THE MOST NOTABLE EXPOSITION OF THE PROBLEM TO APPEAR LOCALLY WAS A HALF-PAGE ARTICLE BY PROF. JUERGEN KUCZYNSKI IN THE JUNE 27 ISSUE OF NEUES DEUTSCHLAND. KUCZYNSKI, A PROFESSOR EMERITUS AT THE HUMBOLDT UNIVERSITY AND A FORMER STUDENT OF JOHN KENNETH GALBRAITH, NOTES THAT THE "SINGULAR DECISION" OF THE REGIME TO MAINTAIN STABLE PRICES REQUIRES AN EXTRAORDINARY EXERTION ON BEHALF OF ALL WORKING ELEMENTS OF THE POPULATION. THE MARXIST ECONOMIST, HIGHLY REGARDED BOTH WITHIN AND WITHOUT THE GDR, NOTES THAT THE CRITICAL CURRENT SITUATION IS DUE NOT SOLELY TO INFLATIONARY TRENDS ABROAD BUT TO A "REVOLUTION" IN PRICES, WHEREBY THE TRADITIONAL TERMS OF TRADE BETWEEN MANUFACTURED PRODUCTS AND RAW MATERIALS HAVE SHIFTED RADICALLY TO THE ADVANTAGE OF THE LATTER.

7. KUCZYNSKI ASCRIBES THIS REVOLUTION TO A DELAYED CONCLUSION OF COLONIAL HISTORY AND NOTES THAT BOTH THE SOCIALIST AS WELL AS THE CAPITALIST COUNTRIES ARE AFFECTED. WITHOUT DIFFERENTIATING BETWEEN PRICES FOR RAW MATERIALS AND FUELS IMPORTED FROM THE THIRD WORLD AND THOSE OBTAINED FROM THE CEMA AREA, KUCZYNSKI STATES THAT THE GDR'S TERMS OF TRADE HAVE DETERIORATED DECISIVELY. ASSERTING THAT THERE IS NO EUROPEAN COUNTRY AS DEPENDENT ON RAW MATERIAL IMPORTS AND FINISHED PRODUCTS EXPORTS AS IS THE GDR, KUCZYNSKI WRITES THAT INCREASED CONSUMER PRICES WOULD BE FULLY JUSTIFIED. THAT PRICES HAVE,

HOWEVER, NOT RISEN IS DUE TO GOVERNMENT
DECISION THAT THE COST OF LIVING IS TO REMAIN STABLE.
THIS DECISION, KUCZYNSKI OBSERVES, IS BASED ON THE
ASSUMPTION THAT THE EFFICIENCY OF THE ECONOMY WILL
GROW CONSIDERABLY IN THE COMING YEARS AND CERTAINLY
MUCH MORE SO THAN PREVIOUSLY. HE EXPRESSED HIS CON-
VICTION THAT SUCH A DEVELOPMENT IS NOT ONLY NECESSARY
BUT POSSIBLE AND CONCLUDES THAT THE GDR, AFTER PASSING
THROUGH DIFFICULT EARLY YEARS WITH THE ASSISTANCE OF
THE SOVIET UNION, HAS NOW ENTERED A NEW ERA IN ITS
ECONOMIC HISTORY.

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8. WHILE KUCZYNSKI EXPRESSES A CONVICTION THAT
INCREASED PRODUCTIVITY AND HEIGHTENED THRIFT AT HOME
CAN OFFSET FOREIGN PRICE INCREASES, HE, AS WELL AS SEVERAL
INFORMED GDR CONTACTS, HAVE BETRAYED DOUBTS AS TO WHETHER
THIS POLICY ACTUALLY CORRESPONDS TO REALITY. KUCZYNSKI
HIMSELF POSES THESE QUESTIONS: "BUT HOW IS IT POSSIBLE
TO JUSTIFY THIS (POLITICAL) DECISION IN ECONOMIC TERMS?"
"DO WE NOT WITH THIS DECISION RUN HEAD ON INTO ECONOMIC
COMMONSENSE?" "IF WE HAVE TO EXPORT MORE INDUSTRIAL
GOODS IN ORDER TO OBTAIN THE SAME QUANTITY OF RAW
MATERIALS; IF WE HAVE TO EXPORT STILL MANY MORE INDUS-
TRIAL GOODS IN ORDER TO OBTAIN ADDITIONAL RAW MATERIALS
FOR INCREASED INDUSTRIAL PRODUCTION--THEN DON'T FEWER
GOODS REMAIN FOR US?" "AND HOW SHOULD WE SELL ADDITIONAL
GOODS OVERSEAS IN LIGHT OF THE CYCLICAL CRISIS OF OVER-
PRODUCTION AND HEIGHTENED COMPETITION?" KUCZYNSKI
ANSWERS MOST OF THESE QUESTIONS, AND OTHERS, WITH A QUALIFIED "NO",
STATING THAT NORMAL CONSEQUENCES DO NOT HAVE TO FOLLOW
IN PRODUCTION CAN BE SUFFICIENTLY INCREASED.

9. KUCZYNSKI'S VIEWS HAVE NOT ALWAYS FOUND OFFICIAL
FAVOR; AND, AT AGE 71, HE PROBABLY CAN AFFORD TO BE
MORE OUTSPOKEN THAN MOST OTHERS. HOWEVER, HE HAS NOT
BEEN ALONE IN HINTING THAT THE MAINTENANCE OF STABLE
CONSUMER PRICES WILL NOT BE POSSIBLE OVER THE LONGER
TERM. SPECULATION IS THAT THE CURRENT POLICY WILL BE
RETAINED UNTIL THE IXTH PARTY CONGRESS IN MAY 1976.
ACCORDING TO A WELL-INFORMED SOURCE, HONECKER HIMSELF
HAS RESISTED PRESSURES TO RAISE PRICE LEVELS FROM
WITHIN THE PARTY AND GOVERNMENT BUREAUCRACIES,
EVIDENTLY FEELING HIS OWN PRESTIGE BOUND UP WITH THE
PRICE ISSUE AND FULFILLMENT OF THE "PRIMARY TASK"
(HAUPTAUFGABE) ENUNCIATED BY THE VIIIITH PARTY CONGRESS OF
1971, NAMELY, A HIGHER MATERIAL AND CULTURAL STAN-
DARD OF LIVING WITHIN THE CONTEXT OF INCREASED PRODUCTION.

10. IF OUR INFORMATION IS CORRECT, THE GDR WILL PROBABLY

CONTINUE TO LIVE BEYOND ITS MEANS BY INCRASING TIS
BORROWING IN THE WEST FOR THE NEXT TEN MONTHS OR SO;
AND THEN PRICE LEVELS WILL BE RAISED, PERHAPS BY AS MUCH
AS 50 PER CENT OR SO FOR CERTAIN GOODS AND SERVICES.

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TO THE EXTENT THAT SUCH BORROWING IS NOT ADEQUATE,
GOODS WILL BE FURTHER RATIONED, NOT THROUGH INCREASED PRICES BUT
RATHER THROUGH REDUCED AVAILABILITY.

11. THE RESPONSE OF THE EAST GERMAN POPULATION TO
THE HIGHER PRICES, WHEN THEY ARE IN FACT IMPLEMENTED,
IS DIFFICULT TO GUAGE. THERE IS LIKELY TO BE A FURTHER
DEGREE OF DISILLUSIONMENT WITH THE PREVAILING SYSTEM,
SINCE AT LEAST ONE OF ITS ADVERTISED ADVANTAGES VIS-A-
VIS THE COMPETING ECONOMIC SYSTEM, WILL HAVE PROVEN
EPHEMERAL. THIS DISILLUSION IS NOT LIKELY, HOWEVER, TO FIND
EXPRESSION IN OPEN DISCONTENT, SINCE MOST
EAST GERMANS WILL CONTINUE TO BE ABLE TO MAINTAIN A
RELATIVELY HIGH STANDARD OF LIVING, IN VIEW OF SATIS-
FACTORY EARNINGS AND ACCUMULATED SAVINGS WHICH CAN BE
DRAWN DOWN TO OFFSET HIGHER PRICES. IN ADDITION, THE
REGIME HAS TAKEN THE PRECAUTION OF INTRODUCING A
SAFETY VALVE IN THE FORM OF HARD CURRENCY SHOPS AND BY
PERMITTING ITS PEOPLE TO HOLD "VALUTA". THE DURABILITY
OF THESE INNOVATION WILL DEPEND, IN PART AT LEAST, ON
THE AMOUNT OF ANY DOMESTIC PRICES INCREASES AND THE
REACTION OF THE POPULATION. COOPER UNQUOTE. INGERSOLL

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